THE INCOME TAX

A DEBATE

University of Chicago

1911

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The Chicago Debating Teams
1910-1911

Edward E. Jennings | Paul M. O'Dea | Lew McDonald

Affirmative Team
Chicago vs. Northwestern

Arthur P. Scott | Albert F. Mecklenburger | Merrill I. Schnebly

Negative Team
Michigan vs. Chicago

The Federal Graduated Income Tax

A DEBATE

The Constructive and Rebuttal Speeches of the representatives of

THE UNIVERSITY OF CHICAGO

In the Thirteenth Annual Contests of the Central Debating League against Northwestern and Michigan,

JANUARY 20, 1911

QUESTION:

"Resolved, That the Federal Government Should Levy a Graduated Income Tax, Constitutionality Conceded."

Published by
THE DELTA SIGMA RHO
University of Chicago Chapter
1911

FOREWORD

This debate is published with the confident feeling that it presents a comprehensive and up-to-date survey of both sides of the Graduated Federal Income Tax. The question is not a new one, but has been debated many times. Some of these debates have been published and are meritorious, notably that of Iowa State University, 1910. The Chicago debaters, while taking advantage of the experience of others, have gone further than any, and have given a new form to many elements of the question. They have treated it as a live issue, of present interest, and have given it a quality of freshness that may surprise those who think it is a dry subject. The fact that the negative case lost is not a proof of its weakness, but is explainable on other grounds—without detracting from the credit due our victorious opponents. It should be remembered that the negative lost in all three debates.

It will be observed that the affirmative and negative arguments do not directly answer one another. This is because the affirmative was given against Northwestern, and the negative against Michigan. The speeches are given as actually spoken, so far as possible. Although the points of one side do not meet those of the other as here given, yet it is believed that practically the whole ground is covered, and that, in any debate, substantially the same arguments would necessarily be used, though the order might be changed.

This is true in particular of the negative, whose analysis of possible methods of collection, all reducing to self-assessment, seems calculated to answer any plan the affirmative could bring up. The affirmative discuss here only the degressive type of tax, graduated downward, and omit the progressive type, graduated upward, believing its difficulties insurmountable.

CHARLES F. McELROY,

DEBATING COACH.

The University of Chicago, February 1, 1911.

INTRODUCTION

The Central Debating League

The Central Debating League comprises the Universities of Chicago, Michigan and Northwestern. Originally it included Minnesota also, and held its first contests in 1899. Each school chose one team, which paired off in semi-final debates in January of each year, the winners meeting in April for the championship. In 1906 Minnesota withdrew, and the League was reorganized on the triangular basis. Each school now selects two teams, taking opposite sides of the same question. The affirmative team remains at home, while the negative team visits. The care given to preparing the case and training the men in the Central Debating League has set a standard of excellence recognized throughout the country.

The Debates of 1910-1911

On January 20, 1911, the Chicago negative team journeyed to Michigan; the Michigan negative went to Northwestern; while the Northwestern negative came to Chicago. In each instance the affirmative won, and, as a corollary, each negative lost, making a triple tie for honors. The same thing happened two years ago, except that at that time victory perched on the negative banner.

At Chicago the debate was held in Leon Mandel Assembly Hall, and was presided over by Dean James P. Hall, of the University of Chicago Law School. The Chicago speakers, advocating the affirmative, were Edward E. Jennings, Lew McDonald, and Paul M. O'Dea. The Northwestern speakers, defending the negative, were Jay L. Chestnutt, O. E. Reinhart, and Raymond Pruitt. In the rebuttal speeches Northwestern kept the same order, while for Chicago, Mr. O'Dea spoke second and Mr. McDonald last. The judges were Judge Edward O. Brown, of the Illinois Appellate Court; Professor John M. Clapp, of Lake Forest University; and Hon. S. S. Gregory, of Chicago. Their verdict was unanimous for Chicago.

The debate against Michigan was held in University Hall, Ann Arbor, Mich., and received special honor in the presence of Governor Chase S. Osborne, who presided. While waiting for the judges' decision he made an appeal to the debaters to use their oratorical powers in the interest of the various reform measures now before the people. The Chicago speakers were Merrill I. Schnebly, Albert F. Mecklenburger, and Arthur P. Scott, on the negative. Michigan's debaters on the affirmative, were John Gutknecht, Benjamin H. Reck, and Robert J. Curry. In rebuttal the Chicago order was unchanged, but every Michigan man had a different place. Mr. Reck spoke first, Mr. Curry second, and Mr. Gutknecht third. This was a piece of skillful strategy, whose success vindicated its wisdom. The judges were ex-Attorney General F. S. Monnett, of Columbus, Ohio; Hon. Charles F. Coffin, of Indianapolis, Ind.; and Hon. Jackson W. Sparrow, of Cincinnati, Ohio. They gave a solid vote for Michigan.

The third debate, held at Northwestern, resulted in a victory for that school's affirmative team over Michigan's negative by a vote of two to one.

The Chicago Debaters

Edward Jennings is a graduate of Wayland Academy, Beaver Dam, Wis. While there he won the Newton Oratorical contest and represented Wayland Academy in a debate with Carroll Academy. At Chicago he was a member of

the Literature college debating team and the Sophomore debating team. He won the Junior Extempore contest in 1909. Member of the class of 1912, Arts College.

Lew McDonald is a graduate of the Hopkinton, Iowa, high school and of the State Teachers' college. He took part in debates against the State Normal school and the State Agricultural college. He also won first place in several school medal contests. He is in his second year in the Law department at Chicago.

Paul M. O'Dea graduated from the Springfield, Missouri, high school in 1905, and from Drury College in 1909. While at the latter institution he participated in debates against Arkansas University and Washington University, and was class orator. He was a member of the Varsity championship team that defeated Michigan in 1910. President of the Freshman class in the Law School.

Merrill I. Schnebly, of Peoria, Ill., prepared at the Peoria high school. He graduated from Bradley Polytechnic Institute in the class of 1909. While there he was on the Bradley debating team against Eureka College. He is now a member of the Senior class in the College of Arts, and a Freshman in the Law school.

Albert F. Mecklenburger, of Okolona, Mississippi, prepared for college at the Okolona high school. He graduated from the University of Mississippi in the class of 1907. He represented his University in the Gulf States Oratorical contest, winning first place. He is at present a Senior in the Law school of the University of Chicago.

Arthur P. Scott, of Evanston, prepared for college at Lewis Institute, and graduated from Princeton University. He was a member of the University debating teams there against Harvard and Yale, and was valedictorian of his class. He is at present a graduate student in the department of history in the University of Chicago.

The Delta Sigma Rho

The Delta Sigma Rho, under whose auspices this debate is published, is an honorary fraternity composed of debaters and orators who have competed in inter-university contests. It has chapters in about a dozen of the leading schools of the country. The chapter of the University of Chicago keeps in close touch with the debating situation. Its members are willing and valuable aids to the coach during the preparation for each debate, while its general oversight goes far to stimulate and sustain debating interest among the students. In promoting this publication, the chapter hopes it is initiating a regular series of printed debates for Chicago, to be brought out each year.

Honor to Whom Honor is Due

Thanks and appreciation are due to Prof. Alvin S. Johnson, of the Economics Department, for advice and criticism in the shaping of the affirmative case; to Mr. H. P. Chandler, Instructor in Debating; B. Samuels, H. G. Moulton, M. F. Carpenter and D. E. Carlton, all Δ Σ P men, for assistance and criticism in the training of the men; to Paul M. O'Donnell and J. W. Hoover, of the Δ Σ P, for active aid in the publication of this book; and to Miss Cora M. Gettys and Miss Clara S. Roe for co-operation in the use of the library facilities.

The Debate

(The Michigan debaters, on the affirmative, proposed to apply the English income tax system to the United States, but raising the limits. Incomes below $5,000 *were to be exempt, incomes between* $5,000 *and* $15,000 *to be taxed on a graduated scale and incomes over* $15,000 *at a uniform flat rate.)*

(The Chicago affirmative plan is to tax incomes between $2,500 *and* $20,000. *While modeled on the English plan, its adaptation to American conditions is pointed out. The Michigan debaters contented themselves with saying they would use the English system.)*

EDWARD E. JENNINGS, FIRST AFFIRMATIVE.

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

Our question means that Congress should levy a tax upon incomes, so graduated that small incomes are exempt; moderate incomes bear a low rate, and larger incomes bear a higher rate of taxation.

This question is of immediate interest. An amendment to the Federal Constitution is now before the various states. Six states, including our own state of Illinois, have already ratified this amendment and the chances are that most of the rest of the states will do the same.

The income tax is not a novel, theoretical, nor untried scheme, but it is old and well established. Fourteen foreign nations at present are using some form of an income tax. England has used it for one hundred and ten years. These nations vary in size from the German Empire to little Holland. The rate varies from 2 per cent in Italy to 68 per cent on incomes over fifty thousand dollars in Japan. The amount exempted varies from fifty dollars in Japan to eight hundred dollars in England. The temperament of the people varies from the stolid Swede to the mercurial Frenchman. In short, each of these nations levies an income tax in a form best suited to its own size, needs and the temperament of its people.

Our Federal Government used it as a Civil War measure. Congress again placed it upon the statute books in 1894, but the Supreme Court declared it unconstitutional. The fear of a similar fate prevented its being made a part of the Payne-Aldrich tariff bill, but popular demand forced Congress to submit the Sixteenth Amendment to the states, which would forever set at rest the question of its constitutionality.

We of the affirmative base our case in support of this tax upon three propositions:—

First—We need another tax as a supplement to our revenue system.

Second—This should be a tax on incomes, graduated, and levied by the Federal Government.

Third—Such a tax can be levied and collected beyond the shadow of a doubt.

I. It is my purpose to show that the United States needs another kind of tax. Our present revenue system is deficient in two ways. In the first place it is unstable and inelastic. It has an embarrassing faculty of piling up surpluses at times and giving way to deficits when it is most needed. The Treasurer's report shows a surplus of $111,000,000 in 1907, followed by deficits of $20,000,000 in 1908, $119,000,000 in 1909, and $19,000,000 in 1910. Here are three deficits in succession, and President Taft in his recent message predicted a deficit for the coming year. In the twenty years since 1890, according to the Statistical Abstract of 1909, we have had ten deficits and ten surpluses. The surpluses have aggregated over $500,000,000, or $50,000,000 a year. The deficits aggregate $650,000,000 or $65,000,000 a year. With a revenue so fluctuating and undependable it is impossible to make our receipts and disbursements balance. These surpluses and deficits can be estimated with a fair degree of accuracy, but the tariff and internal revenue are so rigid that Congress is powerless to prevent them. But these taxes could be adjusted so as to furnish the major portion of our revenue, and if supplemented by an elastic income tax, Congress, after determining the legitimate expenditures of the Government, could raise the proper amount of money to meet them.

According to statistics from the Department of Commerce and Labor, England by adjusting her income tax keeps her receipts and disbursements within $4,000,000 of balancing. Japan with a protective tariff similar to ours supplemented by an income tax keeps almost an exact equilibrium between receipts and disbursements. The Statistical Abstract shows a surplus of only $4,000 in a budget involving $600,000,000.

Then again, with an income tax supplementing our present revenue system we would have the machinery in operation to meet any emergency that might arise. The slight financial flurry of 1908 created a deficit of $119,000,000 in 1909. Ten years previous to that the Spanish-American War brought on large financial obligations that the tariff could in no way cope with. In 1862 Congress passed an income tax as a war measure, but it yielded almost no revenue until 1866, after the war was over and the time of greatest need had passed. If we have the machinery of an income tax in operation it will be possible to expand the rate to meet any such emergency.

II. In addition to this need for elasticity, we need it for justice in the distribution of taxation. The old economic theory of taxation based upon ability to pay has not been improved upon.

Our present Federal taxes are taxes upon consumption. In other words

we are taxing people upon what they eat, drink and wear, and not upon their ability to pay. Such taxes are manifestly unjust, because of their burden upon the poor and middle classes. It is estimated that 25,000 people own one-half of the wealth of this country, but they pay very little more of our Federal taxes than do any 25,000 taken haphazard from the middle class. You and I, members of the middle class, consume as much sugar as does the person with an immense income. Thus we pay our per capita share of the $60,000,000 revenue from sugar, and as a side issue we foster a disreputable and unprincipled sugar trust. The same is true of a high tax upon wool. It takes as much wool for a $30 suit of clothes for you and me as it does to make a $200 suit for the millionaire, and the duty is higher upon the cheaper grades. Cotton goods follow the same rule. The tax is highest on the goods of lowest grade. And so we might continue almost indefinitely to verify the general rule that we must have a high tariff upon articles of common consumption—goods that all the people eat, drink and wear every day in the year—in order to raise the enormous amount of money needed by this Government. Is it any wonder that the Payne-Aldrich tariff bill as a relief measure was an "insult to the intelligence of the common people?" With no other available form of taxation it was necessary to inflict these injustices.

Because of these great defects in our revenue system there is a spirit of discontent with our tariff schedules that cannot be stifled. The voice of the people in the last election was unmistakable. We maintain with confidence that our tariff schedules are going to be reduced. The people will not stand for any one per cent reduction or any other such farce. The demand is for a material and decided reduction. The conscience of the people is awake to the injustice and inefficiency of our present system and a cleaning up is inevitable. Our position is stronger than that of merely stating that our tariff ought to be revised. It not only ought to be revised but it is going to be revised. Such a revision must result in less revenue.

The question therefore arises: Can we get along with less revenue in the future than we have in the past? According to the Department of Commerce and Labor there has been a steady yearly increase in expenditures averaging since 1890 $100,000,000 for every five years. In 1890 our disbursements were $297,000,000, 1895 $356,000,000, 1900 $487,000,000, 1905 $563,000,000, 1909 $662,000,000. It is true that there was a decrease in expenditures of $28,000,000 last year, but this was due partly to the fact that less money was used for improvements than previously and partly to the business administration of President Taft. The field for saving and cutting down expenses is necessarily limited, both in extent and in time, and everyone must concede that we are going to continue to expand and develop. Not only must the constructive work already begun be completed but new de-

mands will constantly arise. We therefore not only will need as much money as we have in the past but we will need a great deal more. Senator Newlands says that we have immediate need of $100,000,000 per year for internal improvements.

How evident, therefore, is our need for reform:

1. With a revenue system utterly devoid of elasticity:

2. With our Federal revenue raised entirely by a tax upon what we eat, drink and wear instead of upon ability to pay;

3. With an unmistakable demand for tariff revision that will result in less revenue;

4. With our Government halting before constructive work because of lack of funds;

We maintain, Honorable Judges, that there is a definite and immediate need for an income tax.

MERRILL I. SCHNEBLY, FIRST NEGATIVE.

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

The question before us is a tax. What are the reasons for any tax? The primary purpose is to raise revenue; the second, perhaps, to regulate. The first question to confront us, then, is, "Do we need the revenue to be raised by the proposed tax?"

We oppose the income tax upon the ground that it is absolutely unnecessary for revenue. We shall show further that it is not practicable in operation, and will work actual injustice. In proving this, we show also that it cannot be used for purposes of regulation.

An income tax is not necessary for revenue. In the first place, our present system is adequate for immediate needs. In proof of this, we cite the fact that during the last decade, with but three exceptions, every year showed a net surplus of ordinary receipts over ordinary disbursements. The decade as a whole gave the huge surplus of $369,000,000. At the end of the last fiscal year, not counting the extraordinary expenditures of the Panama Canal, there was a surplus of $15,000,000 and a cash balance of $106,000,000. The present year will produce a surplus. Therefore, we see that the past decade has shown a surplus; the last year showed a surplus; and the present year indicates a surplus. We go further than this. The next year, it is estimated by the Secretary of the Treasury, we will have a surplus of $50,000,000. Even though our opponents desire to include the expenses of the Panama Canal, there will still be a surplus, as the revised estimates allow but $49,000,000 for both construction and fortification, leaving $1,000,000 to the good.

In the face of these facts, how can it be argued that we require additional taxes? Senator Cummins, one of the most ardent advocates of the

income tax, based his support solely upon the ground that it was needed for revenue. He said:

> "The senator from Rhode Island stated that we did not need more revenue than will be received at the custom-houses. If these conclusions are sound, I for one abandon my proposal for an income tax, for I say without hesitation that if, in securing adequate protection, a revenue is necessarily raised that will meet the reasonable expenditures of Government, then, from my standpoint, it would be an economic crime to levy an income tax."

How badly he was mistaken, time has shown. Instead of that deficit of $60,000,000, there was a surplus of $15,000,000. Therefore, we certainly do not need an income tax for present revenue.

In the second place, will our present system remain sufficient in the future? For several years we may expect expenditures to actually decrease. In 1910 they were $2,000,000 less than in 1909; appropriations for 1911 were $28,000,000 less than in 1910; and, finally, estimates for 1912 are $52,000,000 less than appropriations for 1911. This makes a total reduction of over $80,000,000 in three years.

This reduction is not due to abnormal causes, nor is it a political trick; it is due to the soundest business reasons. It is due simply to the fact that the United States is applying efficiency and economy. For instance: A postal deficit of $19,000,000 two years ago has been entirely wiped out this year; the Secretary of the Treasury has abolished 400 useless places in his department; improved methods of collection at New York are saving $10,000,000 annually in custom receipts, and since the appointment of Collector Loeb, receipts from passengers have grown 100 per cent. Among the further opportunities for economy, President Taft refers to the fact that it costs at Annapolis $309 to collect $1, and at York, Me., $505.

Now grant that after a few years the limit of economy will be reached, and expenses will begin to increase with the growth of the country. With expansion will come increased importations, and, hence, the present system can easily be adjusted to produce revenue corresponding with the needs. Prof. Seligman, the political economist, says:

> "So far as considerations of revenue are concerned, it can scarcely be contested that the income tax is unnecessary for Federal purposes. Federal revenues in the past have, in normal times, been derived almost entirely from custom duties and internal indirect taxes. There is no reason why these sources should not suffice for the future."

But, aside from the question of the tariff, a slight raise of the internal revenue would yield vastly increased receipts. The present rate on spirits is but half of what it is in England. Why not double the tax on beer? It is now 3 cents per gallon. That would mean an increased revenue of $58,000,000; and this would not decrease consumption. In 1898, with a tax of $1 per barrel, consumption was 37,000,000 barrels; in 1900, with a tax of $2, or twice as much, consumption was 39,000,000 barrels, or 2,000,000 barrels greater.

Therefore, we conclude that our present revenue system is adequate for our present needs, and will remain adequate for future needs; hence, another tax would be superfluous.

Let us see what would be the effect of putting on an additional tax, such as the income tax. The yield of such a measure is estimated by its friends at from $40,000,000 to $70,000,000. Add this sum to our estimated surplus this year of $7,000,000, and we shall have from $47,000,000 to $77,000,000. What do the gentlemen of the affirmative propose to do with this enormous sum? What is its justification? A large surplus is a temptation to recklessness and extravagance, and is actually worse than a deficit.

Perhaps our opponents think this surplus could be avoided by cutting down the tariff. But when we talk about tariff reduction, we deal with something very elusive. The people, at different times, have expected various things to be done with the tariff; usually they have been sadly disappointed. We believe they were last year. What reason have we to think that there is to be an immediate annihilation of the tariff? Indications are that changes will be made, if at all, schedule by schedule, and these spread over several years. It will be a careful, scientific revision. A Democratic House with a Republican Senate and President will hardly achieve radical revision. The popular position on the tariff question is this: we believe in the principle of protection, but we resent overprotection for the benefit of the trusts at the expense of the ultimate consumer. As Prof. Taussig of Harvard says:

> "No rational person, even though he were the most radical free trader, would propose to abolish at one fell swoop protecting duties to which a great industrial system had accommodated itself."

Now there is no reason to believe that a reduction of tariff rates will reduce revenue. Many of the tariff schedules are so high that they prohibit imports and yield no revenue. They merely permit the trusts to levy an enormous tribute upon the consumer. Herein lies the evil of the system. No one, I think, complains of the $3.25 per capita tax which he pays to the Government because of a tariff. Take, for example, an old illustration. According to Mr. Schwab, steel rails are made in England at a cost of $19 per ton and laid down in America at $24 plus a tariff of $7.84, or a total of

$31.84. The Steel Corporation makes rails at $12 and, thanks to the tariff, is able to sell at $28, making a profit of 122 per cent. The importations yield to the Government $30,000, but the Steel Trust collects $28,000,000 from the people.

The oil schedule yields $12,851; yarns, of the cheap variety, valued at less than 30 cents a pound, $132; blankets, valued at less than 40 cents a pound, $385; valued from 40 to 50 cents, $377; ready-made clothing gives practically nothing. Now if the duty is lowered on these articles, a far greater quantity will be imported, and schedules now yielding almost nothing will be turned into productive sources. This is true of a large majority of the schedules.

Speaking of reducing revenue derived from the tariff, Senator Aldrich says:

> "The only way that revenue from the tariff can be substantially reduced is by adopting one of two courses—either by the adoption of prohibitory duties, which will stop revenue, or by placing manufactured articles that will compete with articles produced in this country upon the free list."

Whatever may be our opinion of Mr. Aldrich, he is certainly an authority upon the tariff. Therefore, we conclude that any reasonable revision will mean increased revenue.

I have now proved that an income tax is unnecessary for revenue, because our present system is adequate and will continue adequate; that a reduction of the tariff short of free trade will mean an increased revenue; and all forces combined with the proposed income tax would yield an immense surplus, for which no legitimate use can be found.

My colleagues will show that a Federal, graduated income tax will not work, and cannot be made to work.

LEW McDONALD, SECOND AFFIRMATIVE.

PRELIMINARY REBUTTAL

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

The negative charge us with an inconsistency. The gentleman asked how we are to eliminate inequalities in the present system, and at the same time keep it in operation in connection with an income tax. It is quite evident that indirect taxation is working to the point of exhaustion. The deficits of the last four years indicate that the present sources of revenue are not commensurate with the demands for money. With our Federal expenditures weighing down upon us more heavily from year to year, and the agencies of Federal revenue unable to respond to these needs, the consistency of our position rests on the expediency of getting the machinery of a Federal

income tax into operation, in order to meet the increasing needs and at the same time offset the regressive tendency of the tariff, which is bound to be reduced to an industrial basis.

MAIN SPEECH

My colleague has pointed out that the present system of indirect taxation is a tax upon consumption and in no way related to a man's ability to pay.

Since income is the best measure of a man's ability to pay, an income tax is the fairest kind of a tax, and a graduated tax is the best form of an income tax, because it properly distributes the burdens of taxation. It devolves upon me to prove the expediency of graduation. Ability to pay taxes does not increase with the magnitude of the income, but in a peculiar economic ratio which is greater than simple proportion. The French economist, Say, illustrates the principle in this way: He takes two families, one whose income is 300,000 francs, the other 300 francs, and subjects each to a ten per cent tax. An exaction of 30 francs from the poor man not only robs him of actual necessities but of things which occasion most distressing inconvenience. A ten per cent deduction from the rich man's income, leaves him 270,000 francs, enough to more than satisfy every rational want. Quoting Prof. Say's exact words, "A tax in this case which would be simply proportional would be far from just." Continuing he said, "I shall go further and say that a progressive tax is the *only just tax.*"

This is the logic upon which we advocate the graduation of a Federal income tax. With eighty per cent of this country's wealth owned and controlled by 3,000 estates, corporations, and individuals, we contend that we must measure a man's ability to pay, not by the amount of his contribution to the tax fund, but by the surplus left in his possession. This will determine the justice of our rates.

Our plan of graduation is this—we would exempt incomes under $2,500 on the ground that this limit most nearly conforms to the minimum of subsistence in the United States. Incomes between $2,500 and $5,000 should pay a certain rate; between $5,000 and $10,000 a higher rate; for every additional $5,000 of income we would levy a correspondingly higher rate to $20,000, upon which we would assess our maximum rate. For all incomes above $20,000, we would have a uniform rate for this reason, that above such point the standard of living in this country is practically the same, and to be consistent with a fundamental rule of taxation we must have a maximum limitation, which in this case we place at $20,000. This plan would be graduated downward. We would assess all incomes at the source. Rent is to be collected from the tenant who pays it, dividends from the corporation who declares them. We would assess all incomes at source on the basis of

$20,000 at the maximum rate, and allow a system of refunds for all incomes below this amount.

We have reached the point in our national development where we must apply this peculiar economic ratio to determine what a man shall contribute to the support of his government. Hence some of the burden which proportional taxation would place on the man whose salary is $5,000, should weigh equally heavy on the ability of the man whose income is $20,000. This may be accomplished by the comprehensive system of graduation which we advocate.

Next, let us prove that this income tax should be a Federal tax. In the first place, state and local taxation show the utter breakdown of the property tax in the states. The very nature of personal property precludes the states from ever being able to reach it. One man's personal property may include bonds in an Eastern trust company and stock in a half dozen different corporations located in as many different states. Such wealth has no respect for the bounds of a state and as soon as it becomes of an inter-state character, the states are powerless to impose taxes upon it. A few individual examples will illustrate.

Andrew Carnegie escapes taxation on bonds to the amount of $160,000,000 because he is a legal resident of Scotland. He pays taxes upon an assessment of $5,000,000 which bears an infinitesimally small relation to his actual personal property estate. Mr. Carnegie, however, pays taxes on his income from these bonds in Scotland. We get nothing. Surely such wealth coming from our own agencies of production should pay tribute to our government. William Waldorf Astor, a member of the English Parliament, has many millions invested in bonds of American corporations. He too pays an income tax in England, but he pays barely enough in this country to keep his name on the assessment roll. Hetty Green rambles from state to state to evade taxation. Although she receives an annual income of $3,000,000 from mortgages, stocks, and bonds, it has been said of her that she pays less to the support of any state government than the workingman whose yearly wage is only $500. Take the case of non-resident corporations. The H. B. Clafflin Co. has its legal headquarters in New Jersey. It never has done $10 worth of business in that state. It has been assessed $350,000 on personal property at its place of business in New York but does not pay a cent of this tax. The United Verde Copper Co., operating under New York law, was assessed $1,400,000 on personal property. It went to court and was defeated. Now it has reincorporated under the laws of New Jersey and continues to do business at the old stand and does not pay a cent on this large amount of personalty. After trying every kind of a law to reach this property New York has failed, because the headquarters of these corporations are in a foreign jurisdiction. Their tangible property in New York is covered

by a bonded indebtedness which is held in New Jersey, and New Jersey refuses to tax it.

My authority for these citations may be found in Seligman's "Essays on Taxation," and the January number of the American Magazine.

You notice that the distinctive feature of the difficulty is the inter-state character of this property; you notice that the strength of New York law is defeated by the indifference of another state. This correctly portrays the attitude of surplus personal wealth towards state taxation. The evasion is accomplished by a very simple process. The business concern takes out a bonded indebtedness. The tangible property is now turned into bonds, which are intangible personalty, no longer assessable to the business firm, but to the bondholders. Next, the holder carries these bonds into another state, or transforms them into stock of another company, or he may reside in Washington, D. C., where intangibles are entirely exempt. Not a vestige of this property is left for taxation, yet not a law is broken. Now, we need not condemn individuals. They are playing the taxation game according to the rules. As the president of the New York Tax Commission for 1910, the very best authority we have on this subject, says: "No man who has proper legal advice need pay a cent of direct taxes on personal property."

This wealth excapes most easily by getting beyond the bounds of a state when the assessment is being made—a weakness which never can be remedied by state action. It is not the poor man's overburdened property that is escaping, but the riches of the millionaire, for nothing but massive wealth can manipulate such schemes of evasion.

We have pointed out that the states cannot reach personal property equitably becaues of its transitory nature. In the second place the states are precluded because of the lack of uniformity in the administration of law. If all the states had identical laws and methods perhaps personalty could be reached, but interstate agreements can never be obtained. A stubborn legislature in one state could defeat the whole scheme of uniformity. It is certain that some states would offer inducements to wealth, just as New Jersey has done in the matter of corporation control.

The question then presents itself: How is a Federal tax to overcome this evasion? Not by compelling such wealth to pay its property tax. The Federal Government has no concern with the property tax as such, but it will make this wealth, if produced in our own country, no matter whether it is owned by a member of the English Parliament or by a member of our own Congress; no matter whether he is a legal resident of Scotland or of this city of Chicago—it will compel such wealth to pay taxes at source upon its income.

With a Federal tax, there would plainly be uniformity of action. No

state could defeat the operation of a Federal tax by offering a refuge to tax dodgers. All incomes must pay taxes whether they issue out of a Wall Street bank or out of a Texas ranch. The inter-state character of incomes would be no cause for failure, for the scope of authority of the Federal Government would be as broad as is the character of incomes. Uniformity of action plus the superior effectiveness of our Federal executive in administering law makes a Federal income tax the only just and effective way in which to reach this surplus wealth now escaping taxation.

We are therefore driven to these conclusions: Since a man's ability to pay does not increase proportionately with income but in a progressive ratio, we must have graduation to properly distribute the burdens of taxation. Since an income tax should be a Federal tax in order to compel escaping wealth to pay its just share, we hold that a graduated income tax would be a desirable modification of our present system of Federal taxation.

ALBERT F. MECKLENBURGER, SECOND NEGATIVE.

PRELIMINARY REBUTTAL

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

The gentleman has pointed out the disastrous results of tampering with the tariff. He has shown how a slight tariff revision causes financial depressions and business troubles, and yet he proposes radical tariff revision. He says he favors the protective principle, and yet he would, at one fell swoop, practically abolish the tariff in order to make room for an income tax. Not a very practical way to handle governmental affairs, to say the least! But that isn't all—we cannot reasonably expect any such revision at the hands of Congress, nor would the American people stand for it.

The gentlemen have not shown, and indeed it is impossible to show, how any revision of the tariff now in contemplation would mean a reduction of Federal revenues.

They have spoken of the inelasticity of our present system, but they have not undertaken to show how the Federal Government, in any of its departments, has suffered because of this so-called lack of elasticity.

They have spoken of the injustices of the present State and Federal taxes, and to equalize these burdens they propose a new tax. Now, how a tax on one man will in any wise relieve another, in the absence of a fundamental revision of the whole existing system, is more than we of the negative can understand.

They have spoken of recent deficits in the Federal treasury, but they stopped with the year 1909. They didn't mention 1910. The Treasurer's Report for 1910 shows a net surplus of more than $15,000,000, in ordinary expenditures, not counting the Panama Canal. We have shown that there

is no need of additional Federal revenue. A new tax, therefore, will mean an unnecessary and dangerous surplus. We have also shown that tariff revision, abolishing "over"-protection, will result in an actual increase in Federal revenues.

MAIN SPEECH

We have thus answered the position of the affirmative, but we are willing to go further.

I. A graduated Federal income tax is not practicable.

II. It will not accomplish any of the desirable results claimed for it, because it is not capable of equal and just administration.

As Professor Seligman has said:—

> "No matter how well intentioned a scheme may be, or how completely it may harmonize with the principles of abstract justice, if the tax does not work administratively, it is doomed to failure."

Ex-President Roosevelt, in the very message to Congress in which he recommended a graduated Federal income tax, said:—

> "It is a difficult tax to administer. In its practical workings great care would have to be taken to see that it is not evaded by the very men whom it is most desirable to have taxed; for, if so evaded, it would, of course, be worse than no tax at all. * * *"

Neither Mr. Roosevelt, Congress, the experience of nations, nor the ingenuity of our honorable opponents has furnished any scheme which would mean the successful operation of a graduated Federal Income Tax.

There are just two methods of collecting income taxes.

The first is that of self-assessment; that is, taxing a man upon the income which he tells the assessor he has to be taxed. The assessor says to a man: "How much income have you?" And in the next breath he says, "Be careful what you say, because I'm going to tax you on the amount you say you have." This is technically called, lump-sum self-assessment. It is the same system employed by the States in personal property taxation with notorious ill-success.

The other system is that of stoppage or collection at the source. This means simply that income is taxed wherever it can be caught—rent in the hands of the tenant, wages in the hands of the employer, dividends in the hands of the corporation; in other words, at the source of the income.

Now, stoppage at the source is confessedly the only desirable method of income taxation, but it cannot be applied to a graduated income tax. The ideas of *graduation* and *collection at the source* are wholly incompatible. In source collection the taxing authorities are not even concerned with the question of whose income they are taxing, much less with the question of the

total amount of any man's income. They simply tax income wherever they can find it.

Take for example the corporation tax. The United States Government is taxing ultimately the stockholders of the corporations. It is taxing them upon their incomes derived from stock, and it is catching the tax at the source of the income. What does it know or care as to who the stockholders are or the size of their individual incomes? But, if the rate of tax were graduated according to the total amount of the income of the taxpayer, the Government must find out who owns the stock, and how much other income each stockholder has. This is simply impossible. How much should be collected, for example, from a big corporation for each of its 25,000 stockholders? In this day of stock-exchange, when hundreds of thousands of shares change hands every day, what does the corporation know of who its shareholders are, much less of their individual incomes?

England has the best working, non-graduated—that is, flat rate—income tax in the world, with an efficient system of stoppage at the source, catching 75 per cent of the tax in this method. The Chancellor of the Exchequer recently said, in a report to Parliament:—

> "A disclosure to the taxing authorities * * * of the total amount of the taxpayer's income is necessarily required where incomes are taxed on a graduated scale according to amount. Accordingly such a system of disclosure, and especially that of personal declaration, is found in operation wherever such a graduated scale exists. The method of collection at source, on the other hand, does not lend itself to a system of graduation of the tax according to the amount of income."

An attempt to collect a graduated income tax at source would mean that one man, whose income was derived wholly from one source, would pay a greater rate of tax—a greater amount of tax—than would another man whose income was of equal size but derived from several different sources. For example: If the rate is 1 per cent on $10,000, and 2 per cent on $20,000: One man has an income of $20,000; $10,000 derived from each of two sources. He will pay 1 per cent on each $10,000, or 2 times $100, a total of $200 tax. Another man has an income of the same size, $20,000, derived from one source. He will pay 2 per cent or $400. Collection at source of a supposedly graduated tax would thus result in incomes of the same size paying very different amounts of tax.

The result would be that every man would split his corporate holdings into blocks of such size that the income therefrom would always bear the lowest rate in the graduated scale, and by investing in different sources or

assigning interests in his holdings to dummies or obscure relatives, would easily avoid ever paying more than the minimum tax.

The necessary conclusion is, that stoppage at the source of a graduated Federal Income Tax is not practicable. If income is to be caught at the source at all, it must be at a uniform rate. What shall that rate be? And how is graduation to be accomplished?

On the one hand, if all income which is caught at source is taxed at the lowest rate, the only possible way to graduate the tax is to depend upon the personal statement of the taxpayer that he is entitled to pay more taxes than have been collected from him—in other words, personal, self-assessment.

On the other hand, if all income caught at source is taxed at the highest rate, the tax will have to be graduated downward. By far the greater portion of the tax collected will have to be returned to the taxpayers in amounts varying with the size of their individual incomes. The burden would be placed upon practically every taxpayer of proving against the Federal Government, either that he should not be taxed at all, because of the exemption provided by law, or else that he should be taxed at a rate below that at which the tax had been collected. The complications of such a system would defeat its practicability.

It is such some system as this that has been proposed in this debate. The gentlemen have yet to explain how it will work. They say it works in England.

Now, they do have in England a slightly graduated feature of their tax, which they work by abatements and refunds. But this is only a minor and incidental feature of their system. The English system of income taxes is essentially a flat rate tax. Graduation applies to incomes between £160 and £700, or in our figures $800.00 and $3,500.00, and abatements and refunds are allowed on these small incomes. In other words, it applies only to incomes which are smaller in size than the smallest incomes which would be taxed under the proposed system. The gentlemen have proposed an exemption of $5,000. Now the Select Committee of the House of Commons, appointed for the very purpose of examining into the practicability of extending graduation by this system of abatements and refunds, reported in 1906, and they expressly refused to recommend that abatements and refunds be applied to incomes in excess of £1,000, or $5,000. They pointed out the complications involved in such an extension of the system. They pointed out how great a sum of money would be withdrawn from circulation and locked up in the Government's coffers pending the preparation and justification of these claims for abatements and refunds. And they said this would necessarily work injury to business and commerce.

The final objection to such a system, however, is that the amount which the Government would ultimately retain would depend upon self-assessment.

Now, where are our opponents? Right back where they started; because self-assessment is not a success; and the amount which the Federal Government would ultimately retain would depend upon the oaths of the taxpayers as to how much should be refunded to them. Prof. Seligman has pointed out:

> "As soon as such an oath, however, was permitted the whole advantage of assessing incomes at the source would disappear, and the door would be open to all frauds inseparable from personal or lump-sum income tax. The whole machinery of assessing the tax to the corporation in the first instance might as well have been abandoned."

We have shown the utter lack of need for a new Federal Tax. We have shown that collection at the source of a graduated income tax is not practicable; and that the only possible means of graduating an income tax is to depend upon the personal declaration of the taxpayer. Our last speaker will show that personal self-assessment of a Graduated Federal Income Tax would mean like failure and greater injustice.

PAUL M. O'DEA, THIRD AFFIRMATIVE.

PRELIMINARY REBUTTAL

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

The first gentleman on the negative assumes that the tariff will be lowered, but he demands proof that this process will result in less revenue.

Now, Mr. C. P. Montgomery, Chief of the Division of Customs, says that 90 per cent of our customs revenue comes from articles of common consumption, that is, articles of absolute or relative necessity. As we have pointed out, consumption of necessities depends not upon income, but the absolute unavoidable needs of the physical man. Whether a man's income barely reaches the minimum of subsistence or soars into millions, his capacity for and consumption of necessities are relatively the same. But the gentlemen from Northwestern say, if you reduce the tariff on necessities, consumption will increase so that the customs revenue will grow. Now let us suppose the tax on sugar were reduced two-thirds. Would anyone in this audience eat three times the amount of sugar he now uses? Suppose the tax on tea were reduced two-thirds, would anyone here consume more than three times his present allotment of tea?

Gentlemen, the idea is preposterous! As long as our customs revenue depends on articles of necessity, the only possible way to secure additional revenue is to raise the duties on necessities, which the consumer must have regardless of cost. The existing system, therefore, cannot be extended

without imposing on the already overburdened consumer greater and more unjust burdens than ever.

The constructive argument of the first gentleman of the negative is confined to two features: first, we are told that the income tax will drive away capital, and second, that it will fall unjustly upon certain portions of the country. New York, it is said, will pay one-sixth of the tax! It is our contention that if one-sixth of the nation's income goes to persons residing in New York then those persons ought to pay one-sixth of the income tax. But it is a great mistake to assume that the income enjoyed in New York is produced there. For example: I live in a characteristic Western city of 50,000. Every municipal corporation, all producing handsome dividends, and nearly every manufacturing concern are owned by capitalists residing in New York. The wealth produced in Missouri is thus enjoyed in New York. There is no part of our republic, so poor or so remote, that it does not pay tribute to New York. Shall we say that because a man is so wealthy that he need not give his investments his personal attention, that he may then betake himself to some colony of the wealthy and enjoy himself in spending the unearned income, and that on this account he should be exempt from taxation? Is it not a logical consequence of the gentlemen's argument that if every multi-millionaire in the United States should take himself to Fifth Avenue, that therefore Fifth Avenue should pay no more taxes than Halsted Street? Because a capitalist may secure income in one locality and enjoy it in another, this not only does not justify his exemption from income taxation, but rather affords the very best reason why he should pay an income tax.

The last proposition of the gentleman is that if we levy an income tax we will drive away capital, while in view of the undeveloped state of our national resources, we need to invite, not to repel, men of money.

In the first place, let me ask, where will capital go? Is not the income tax an accepted part of the fiscal system of every great nation on the face of the earth, except Russia?

But aside from this, the argument is worthless. We have in Chicago a classic example. Forty years ago or more the grain elevators were accustomed to charge exorbitant rates. They grew so offensive that the State Legislature set a maximum rate, reducing the average charge 33⅓ per cent. When the measure came before the Supreme Court, the attorneys for the Munn elevators argued with great force that such an action would drive capital away from Chicago, that other states would offer greater inducements, that Illinois should use measures to draw, not to repel capital. The Supreme Court held the statute constitutional. Just across the river, outside the loop district, the Munn elevators are still doing business, and a very profitable business, too. Since the Supreme Court handed down its memor-

able decision in Munn vs. Illinois, Chicago has become the greatest grain center in the world. Is it not reasonable to believe that if the grain elevators were deprived of one-third of their revenue in Chicago, and instead of leaving, began to grow in number and in size, then other productive capital will not be frightened away by a very light tax?

Mr. T. A. Coghlan, Chief Commissioner of Inland Revenue of New South Wales, said in his testimony before the Select Committee of the House of Commons, that to his positive knowledge, no capital in all Australia had changed its abode to escape the income tax. Gentlemen, the conclusion is inevitable. To say nothing of the enormous loss involved by a change of location, capital will stay where greatest returns are offered, regardless of a small income tax.

MAIN SPEECH

Thus far our case has proved the need of a supplementary tax: that the principle of the income tax fills that need. We have to show that the income tax is practicable.

We propose as a basis for our tax a flat, proportional non-graduated rate assessed and collected at source. By taxation at source we mean the assessment of income where it arises. The tax of a stockholder is collected from corporation dividends before the dividend is distributed. Rent is taxed in the hands of a tenant, before it reaches the landlord. The creditor receives his interest payments with the tax deducted by the debtor. Thus we not only prevent evasion but avoid friction.

Taxation at source as the basis of our system is able to reach 90 per cent of all income and is a practical system. Now the nation's total of income approximates $20,000,000,000 annually. The largest individual source of income is the corporations. According to the Corporation tax returns, corporate stocks net annually $2,700,000,000. According to the Commissioner of Corporations the income of corporation bonds reaches $1,700,000,000. These two sources represent one-fourth of the national income absolutely stopped at source.

According to the same authority the salaries of corporate employes amount to $5,000,000,000 annually, equally sure from all evasion. Thus from the one item of corporations one-half of the nation's income will be assessed and taxed at source.

Next in importance is the income of real estate. Tenants will deduct the tax from rents; with rents as a basis of real estate income, independent householders and farmers will be taxed in the same way. Add income of corporations and real estate and you secure 82 per cent of our total annual production. Moreover, these sources represent every large fortune and all of the intangible personalty that now escapes. Of the 18 per cent that remains, 8 per cent is represented in salaries of various kinds, which is also

taxable at source. Thus you have a total of 90 per cent of all income, absolutely subject to our method.

Not subject to taxation at source we have but two forms of income, professions and private businesses. But they represent only one-tenth of our income and most of it is made up of incomes so small as to be non-taxable. But the gentlemen say, "Your doctors and lawyers will all turn perjurers and avoid the tax." We do not believe this is a fair estimate of our doctors and lawyers. But for argument's sake, admit they would: Is it not better to tax 90 per cent of the wealth than 100 per cent of the poverty? Would not such a tax be incomparably superior to any existing tax? Our method is one which knows no discriminations. It is no respecter of persons. It recognizes but one standard, "ability to pay," and solely upon this basis, exacts a just and equitable contribution from each citizen.

To secure graduation we propose a system of abatement and refunding, that is—a partial return of the tax collected. If anyone taxed has an income under $20,000, he produces his dividend warrant if a stockholder, tenant's receipt if a landowner, and receives his refund. Instinctively you ask, will the plan work? Gentlemen, it does work! In England, a fraction over 1,000,000 persons pay the income tax. Of this number more than 700,000 receive rebates. All rebates are made in three months or less. In 1906 a Select Committee of the House of Commons, appointed to report on further graduation of the income tax, reported favorably and among other things said: "The system of abatement and refunding is now working and has worked smoothly for a long time." Mark the phrase, "worked smoothly." It means absence of friction, quick results and popular satisfaction.

In view of the success of the rebate system and the income tax, the Committee of 1904, in comparing it with other taxes, said it "worked with a minimum of friction, a maximum of result." This committee was composed of some of the most eminent financiers of the Twentieth Century. They had before them the taxing experience of the world's history; they were men of every political complexion, and gentlemen, we submit that such a conclusion—"the minimum of friction, the maximum of result"—is the final word upon the subject of rebates.

We have shown the need of the tax, its justice, the fact that it works abroad and so ought here—but beyond all these facts the tax is already in partial and successful operation. I refer to the corporation tax. This tax collects 1 per cent of all the income of corporate stock. In operation but one year, it has yielded $27,000,000. Every cent is collected by taxation at source. If we have reached this vast source of income in one year, is it not reasonable to believe that a broader tax can reach the whole of the nation's income in a very short time?

Add to the corporation tax the minute information of the Depart-

ment of Commerce and Labor, not only about the great corporations but even the smallest businesses, which will check evasion, and then when you put the administration in the hands of our competent Civil Service officials, you have a set of conditions which makes absolutely inevitable the successful operation of the Graduated Federal Income Tax.

ARTHUR P. SCOTT, THIRD NEGATIVE.

PRELIMINARY REBUTTAL

Mr. Chairman, Honorable Judges, Ladies and Gentlemen—

The gentlemen of the affirmative are contending that their scheme will make Federal taxation less burdensome to the great bulk of the people. Let us see how it would work in individual cases. They propose to collect the maximum rate of taxation at the source of income, and allow rebates to those who can prove they are entitled to them. All taxpayers are guilty of large incomes till they prove themselves poor! Think of the thousands who own one or two bonds, bringing in $50 or $100 a year. When one of these persons presents his coupon, he finds that a considerable percentage of his interest has been seized already by the Government. Nothing remains but to ask for a day off, and take his place in line at the Revenue Collector's office with thousands of others who have had a part of their incomes similarly locked up. When his turn comes, he must turn his financial affairs inside out to prove that he is not one of the wicked rich. So also with everyone who has money in the savings bank. The vast inconvenience and irritation of such a system of rebates would not be tolerated by the thousands and millions of taxpayers on whom this burden would rest.

And notice again the enormous complexity of card indexes and statistics which the Federal Government would have to use. The smallest item of income must be recorded, for it may form *part* of a large income. Think of the time and the expense of such a system—the numberless confusions of identity, and the endless possibility of assigning stocks to dummies. And to cap the climax of absurdity, when all the individual items have been added up they simply indicate the *gross* incomes of the citizens. Allowances must be made for losses, for operating expenses of a business, and other exemptions necessarily allowed.

For these no way is open except to take the oath of the citizen—self-assessment—and we are back where we started! Why, then, the time—the expense—the great numbers of new federal officials—the millions of dollars locked up to pay these endless rebates—if in the long run the individual can say that the apparent taxable income was really swallowed up by business losses which leave his net income below the exemption? Instead

of relieving the masses of taxpayers of any burden, this scheme actually adds a considerable burden in the difficulty and irritation which the rebate project would make inevitable.

MAIN SPEECH

There are only two questions of really fundamental importance in this debate:

First—Do we for any reason need a new Federal tax?

Second—Even if we should need a new tax, is the proposed tax the best one, or even a reasonably good one?

Everything thus far said has centered around these two propositions; both must be established by the affirmative. We of the negative submit that the reasons advanced in support of these two points are inconclusive, and are outweighed decisively by the considerations which the negative has advanced against them.

First, then, as to the need of any new tax: Our analysis of the present financial system has shown by the figures that the present revenues of the Government are ample for present needs, and that they may be adjusted to meet the reasonable needs of the future. Any desired elasticity may be secured by an adjustment of internal revenue; while a restoration of the internal revenue rates to the scale of 1902 would give $60,000,000 more revenue, if in future years we should need it—as much as an income tax would yield. The proposed income tax therefore lacks the prime justification of any tax—the need for revenue.

But we are told that the present system of consumption taxes is unjust, and that we should have this much-praised income tax in the interests of justice. But wherein is the present system oppressive and unjust? Certainly not in the per capita tax of $7.00, almost the smallest of any great nation in the world, which goes to support the Federal Government, of which an average of nearly $2.00 per capita is given back in cash in the form of pensions. Half our revenue is raised by the tax on tobacco and liquor, which hurts no one. As for the customs duties—23 per cent of which are paid exclusively by the wealthy on articles of luxury, like diamonds and automobiles—it is not the insignificant amount which goes to the Government which is unjust; it is the amount which the trusts collect from us under the protection of almost prohibitory schedules which has aroused the anger of the people.

Now, how would an income tax on the wealthy help the rest of us unless the tariff is changed? And if the tariff is revised to a basis of honest protection, will not the only real evils of the present system be met? We have already shown that scientific gradual revision downward need not

mean loss of revenue. Where, then, from the standpoint either of finance or of justice is there a call for a new Federal tax of any sort?

But even had it been shown—as it has not—that *some* new tax were needed, the proposed tax is so unwise and so unsatisfactory as to make its rejection imperative.

First—This is a direct tax; and the Federal Government, while it has an admitted legal right to levy such a tax, is morally bound to avoid all direct taxation except in grave and rare emergencies. When the Federal Government was given the exclusive right to tax imports and to collect internal revenue, it was well understood that it should rely on these alone in all ordinary circumstances. The friendly division of taxes between State and National Governments which has continued since 1789 would be changed by a direct Federal tax in time of peace.

We must keep clearly and constantly in mind the exact limits of this debate: We are discussing *only* a graduated Federal tax as an immediate and permanent addition to our Federal taxing system. We of the negative might admit the value of a Federal income tax in emergencies; but that is not the question. We might admit—as most emphatically we do not—the general principle of an income tax; we would even then establish our case by pointing out that under ordinary circumstances it is not a proper *Federal* tax at all under our dual system of state and national sovereignty; for in the necessary friendly division of taxes, a well-settled and wise policy has determined that all Federal taxation should be indirect. Legally the Federal Government could levy direct taxes at any time; but it has felt morally bound not to do so except in time of war. Our first speaker pointed out conclusively that there is no financial crisis either present or impending to call for more revenue; much less for the emergency measure, an income tax.

And finally, we are discussing a *graduated* Federal tax. We have already pointed out that the graduated feature of the tax is not minor and incidental and unworthy of separate notice. It is of fundamental importance, and would be sufficient in itself to defeat the affirmative case. As our second speaker showed, even the theoretical justice of graduation above the minimum of subsistence is open to grave objections, while practically a graduated tax could not possibly be collected at the source of income. No scheme of rebates or information has ever been devised to combine genuine graduation with collection at source. We are therefore forced to conclude that any graduated Federal income tax in this country would have to be collected on the basis of the declarations of the taxpayers as to their total incomes. As a matter of fact, it is absolutely certain from all the bills and

debates in Congress, that if Congress ever *should* pass a graduated income tax, it would be on a basis of self-assessment.

Now, for the sake of completeness, we wish to point out that not only is this tax unnecessary financially, but that in practice it will be a failure. By this we do not mean that it would fail to bring in revenue; for doubtless the Federal Government could wring millions of dollars from the citizens with such a tax. But we mean that it would fail utterly to accomplish the justice of which we have heard so much this evening. Remembering that a graduated tax must rest finally on self-assessment, I wish to emphasize: First, that experience with an income tax in this country, State and Federal, has proved a failure; second, that the reasons for this failure are inherent; and finally, that the result of the tax would be practical injustice and positive harm.

First, as to our American experience—which, we submit, is more pertinent than that of free trade England or autocratic Prussia: In 16 of our States an exhaustive trial has been given the income tax under every conceivable form. It has been generally abandoned, and in the four or five states where it still lingers, it is practically a dead letter. Financially it has accomplished nothing of value. The report of the special New York Tax Commission of 1907 sums up the universal verdict when it says:

"It has always been a dismal failure."

Could the Federal Government succeed where the States have failed? We are not left to guess-work on this point. The Federal Government for ten years—from 1862 to 1872—tried an income tax as a war measure. From almost every point of view the tax was a failure. For a while it was supposed to be graduated, and an attempt was made also to collect a part of it at source from corporations. But the tax was levied only at the flat minimum rate. Finally, finding that graduation was incompatible with even partial collection at the source, Congress in 1869 gave up graduation—another instructive and conclusive proof that a graduated tax cannot be collected at the source of income.

The tax averaged about $37,000,000 a year. Its partial success was due to the fact that it was a war tax. When thousands were going to the front to fight for their country, it is not surprising that when the Government passed the hat, in the form of an income tax, the people at home contributed willingly. But with the close of the war the people decided that the tax was no longer needed, and they began to stop paying it. Between 1866 and 1867 the total tax fell off nearly 10 per cent without any change in the law. In 1869, out of a population of 40,000,000, only 272,843 admitted having incomes over $1,000. Between 1870 and 1871, 20,000 taxable incomes over $2,000 vanished from the lists. Mr. D. A. Wells, connected

with the Treasury Department at the time, who had been appointed by Lincoln on a special finance commission, says:

> "Those only who were officially and intimately connected with the internal revenue department of the United States Treasury can form any adequate idea of the amount of perjury and fraud that characterized and pervaded the country during the years 1867-1872."

And when the income tax of 1894 was proposed, Mr. Wells, speaking from intimate knowledge, said:

> "One would naturally think that the lesson of experience which the Government and the people of the United States have already had, would restrain further experimenting with this subject until the next war, or the arrival of the millenium."

To quote once more from the New York Special Tax Commission:

> "The national income tax during the Civil War was a notorious offender in this respect (inefficiency). The amount of revenue derived from it was ludicrously small; in fact, from careful investigations it has been shown that in the State of New York the Federal income tax worked scarcely if at all better than the personal property tax."

In the American States and nation, then, the income tax, graduated and ungraduated, has been fairly tried, and has been found wanting.

But we wish to show, in the second place, that by the very nature of the tax it cannot be a success. As the New York Tax Commissioners put it:

> "The reason of the failure is to be found in the economic conditions of American life. These conditions cannot be changed by law. They are the same conditions which have made the personal property tax a failure."

And what are some of these inherent reasons which must cause the failure of any tax, self-assessed as this must be?

Any tax is unpopular; but this will be especially so, since it will be direct instead of indirect. The large exemption contemplated will be regarded as unjust by those who have to pay. The demand for a detailed statement of income will be regarded as unwarranted and inquisitorial. We do not argue that this is a proper frame of mind. We simply state it as a fact which must be considered. And not only will this tax arouse more bitter opposition than any other Federal tax, but it can be and will be

more easily evaded than any other Federal tax. The reason for this, as we have frequently said, is the fact that the only way to enforce a *graduated* tax is to ask men to reveal the total amounts of their incomes. It is no slander on the American people to say that such a tax will be evaded. It is simply a statement of fact based on the notorious failure of our income taxes in the past, and the present failure of the personal property taxes.

Now this is a financial measure. Why in the name of common sense should the Federal Government abandon its policy of indirect taxation to lay a direct tax, which it knows in advance will be bitterly resented, and widely and easily evaded?

But we are told that this tax is so *just* that we ought to pass it anyhow! But the "justice" of the tax vanishes when it is not enforced. Is not the personal property tax just in theory? And what is more unjust in practice?

This brings us to our final objection to the income tax: It not only fails to accomplish its theoretical justice, but it results in practical injustice and evil; for such a tax is a tax on ignorance and honesty. Some revenue, undoubtedly, would be raised by such a measure. But if it is only a *partial success* in collecting the revenue on a nicely graduated scale, it becomes a *total failure* from the standpoint of justice, and, as Mr. Roosevelt admits, is worse than no tax at all. It would work practical injustice; would breed contempt for the law; and would invite perjury, corruption, and fraud.

Therefore: Since the Federal Government is not supposed to use its right of direct taxation except in an emergency; since there is no financial need at the present for any new Federal tax; since our present system is capable of adjustment to meet legitimate expenses for the future; since in the last resort a graduated tax can be collected only by self-assessment and personal statement; since such taxes have been tried without success in this country; and since the reasons for their failure are inherent—we of the negative submit that the Federal Government should not levy an income tax; and twice over, that it should not levy a *graduated* income tax.

The Rebuttal

Mr. Schnebly, First Negative.

Our honorable opponents argue that we need the income tax to introduce stability into our revenue system. They say that our revenues fluctuate a great deal, so that one year we have a large surplus, and the next we are confronted with an equally large deficit. Grant that this is true, what harm has resulted from it? Is it something about which the nation has felt seriously concerned? The welfare of the country has at no time been endangered by these surpluses and deficits, nor have we heard them seriously deprecated before this evening.

But if surpluses and deficits must be done away with, we have in the present internal revenue a means of adjusting income to outgo as exactly as any direct tax could possibly do. In 1899, prior to the Spanish-American War, the internal revenue receipts were $273,000,000. In the following years the rate of tax was raised on account of the war. The receipts promptly rose, and in 1901 stood at $306,000,000, an increase of $33,000,000. In 1902 the former rates were restored, and the receipts at once fell to $271,000,000, within $2,000,000 of their original amount before the change. This is an excellent illustration of the elastic nature of the internal revenue—its ready expansion and contraction to meet the financial need.

England has been cited as an illustration of a nation which uses with success the income tax as the regulator of its fiscal system. But the nicety with which England's income is adjusted to expenditure is not due solely to an income tax, but to the fact that she possess a *financial system*—something which is lacking with us. There the control of expenditures and receipts is in the same hands. The budget and bills for raising revenue both originate with the Chancellor of the Exchequer, and are passed in Parliament as government measures without being cut to pieces. In our Congress, on the other hand, the making of appropriations is under the management of a half dozen committees, whose work is independent one of the other, and based entirely upon the estimates of bureau chiefs eager for appropriations for their own divisions. In Congress the committee's bill may be changed altogether.

The gentlemen of the affirmative have cited the experience with the income tax during the Civil War as a proof of its stability and certainty of yield. Are they willing to stand by the facts? In the years 1865 and 1866 the same law that produced $32,000,000 in one year, gave $73,000,000 in the other, a variation of 128 per cent. Between 1867-1868 the variation was 38 per cent; between 1868-69, 17 per cent; and between 1871-72, 36 per

cent. The largest variation in the custom receipts in recent years was 14 per cent between 1907 and 1908. Yet the gentlemen propose to use an income tax to introduce stability into our system!

We have heard a great deal about the tariff and its injustices. But our opponents have not shown that in relieving the burden on the consumer by a reduction of rates, an increased revenue will not result. We gave you statistics proving that a great number of our schedules are prohibitory and now shut out imports, and showed that if these rates were lowered, imports would come in in larger quantities and revenue would actually increase. We have not argued that the tariff as it stands is a model of justice, but if it is not equitable, it can be made so by levying heavier taxes upon articles of luxury used by the wealthy. Now, if a reduction of the tariff is needed to give justice to the consumer and if that can be accomplished, as we have proved, with an increase of revenue instead of a decrease, what is the reason for an income tax?

We have now proved that an income tax is unnecessary because our present revenue system is adequate for our immediate needs and will remain adequate in the future; that a downward revision of the tariff will mean an actually increased revenue; and that the addition of a superfluous tax will roll up an enormous surplus, for which no legitimate use can be shown. We have further proved that graduation is incompatible with collection at source; that self-assessment has proved a miserable failure; and that any attempt to use either method would result in grave injustice.

Therefore, honorable judges, not a single plausible reason exists for imposing this tax upon the American people. Not required by the country's financial needs, unsound in theoretical justice, proved by all history to be an impracticable dream, its adoption would not only be unnecessary, but politically and morally it would be indefensible.

Mr. Jennings, First Affirmative.

The gentlemen on the negative maintain that we have no need of further revenue and in support of that contention they say that we had a surplus of some $36,000,000 last year. It is entirely possible by leaving out some of the extraordinary expenditures of the Government to show a surplus, but we have here the weekly bulletin, issued January first, by the Secretary of the Treasury, which states that for the fiscal year ending June 30, 1910, the excess of all disbursements over all receipts was $19,000,000. We always have extraordinary expenditures in the budget and we submit to you the only fair and reasonable basis for figuring our surpluses and deficits is, *all* receipts and *all* disbursements.

The gentlemen took some time in pointing out that incomes and realty would be taxed twice under the proposed system. Granted that it is per-

fectly true, it still remains to be shown wherein the injustice lies. Here in Hyde Park, in the City of Chicago, we are taxed five times on the same property—by the state, county, city, park board, and drainage board—but we hear no complaint of injustice based upon the number of times that we are taxed.

The negative contends that our proposed income tax is undemocratic, that it may be suited to the despotic purposes of other nations, but it is contrary to the spirit of the United States. What nation is more democratic than Switzerland, the very home of advanced income tax legislation; or by what means do they place France in the category of undemocratic nations? Seligman, whom the gentlemen on the negative have quoted at length this evening, says:—

> "Even if it is conceded that England is the home of hide-bound mediævalism, it is hard to include the cantons of Switzerland or the colonies of Australia in any such category."

The gentlemen on the negative admit that an income tax is essential as an emergency measure and ought to be used as such. But an effective income tax cannot be put into operation in a few weeks or months. It takes time to institute such a tax. Witness the slow progress of the establishment of Postal Savings banks now in operation. We have already called your attention to the fact that it took four years at the time of the Civil War to make this tax productive. It is evident, therefore, that if we are going to use this tax, as the gentlemen on the negative would have us use it, we must have the machinery in operation in order that when the emergency comes we will have an effective means at hand to meet it.

They say that it was to have been a temporary measure in England, which fact is very true. But the Englishmen found that it was too good a thing to use merely as a temporary measure; and in addition they found that its efficiency as an emergency measure was increased by its use as a regular part of their taxing system.

In regard to this Seligman says:—

> "The income tax has grown to be a permanent part of the English tax system, which no one now thinks of abandoning, and which is capable of increase or diminution according to a change in the annual rate. Gladstone at first declared it an exceptional mode of taxation, but in 1860 he said: 'It was a rare and residual agency; it is now a permanent and principal force'."

The gentlemen have said that we must view this tax in its "relation to our comprehensive system of taxation," and in other ways they would have

you believe that we are dealing with a complicated question. But this question centers upon two simple issues. First, do we need an income tax? We of the affirmative believe that because of lack of revenue, inelasticity, the injustice of consumption taxes, demand for tariff revision, and the expansion of the Government, we are in immediate need of an income tax.

The next question is—Will it work? We have shown you that assessment and collection at source at the highest rate will get all incomes. Add to this the system of graduation by abatements and we have a combination that can't help but work.

Mr. Mecklenburger, Second Negative.

In speaking of the supposed injustices and the inquisitorial nature of the present Federal internal revenue, the gentlemen have referred to "blood hounds on the trail of the moonshiner." Now, we have no objection to blood hounds on the trail of moonshiners or other law breakers, but we do object to blood hounds on the trails of innocent parties—on our trail, on your trail, and on the trail of the whole American people, hounding down each small bit of income and locking it up in the Federal Treasury. We do object to hounding the 20,000,000 renters, every debtor, and every employer in the United States, and making them pay over the tax of the landlord, the creditor, or the employee, as the case may be. We do object to the locking up of millions of dollars thus wrongfully collected by the Federal Government and placing the burden upon practically every taxpayer to prove either that he should not be taxed at all, because of the exemption; or else that he should be taxed at a lower rate than has been collected from him.

Mr. A. M. Scharff, of the Association for Collecting Abatements and Refunds for English income taxpayers, has said:

> "What justification can there be in putting the taxpayer to the expense of interpreting the laws of the country as between the country and himself? Because the expense of fighting an injustice is nearly always very much in excess of the amount in dispute, the poor taxpayer must bear it—and grin if he can."

The result of such a system would be that only the ignorant and the honest would pay the taxes. On several grounds we have forced our opponents back upon self-assessment as the only possible method of collecting a graduated Federal income tax. Self-assessment is the basis of personal property taxes in the states, about which the gentlemen complain, and yet they practically admit that the income tax will not work any better. Personal property taxes are evaded by the very rich. So also will the income tax be

evaded by the very rich. Personal property taxes bear most heavily and most unjustly upon the honest middle classes. So also would the income tax bear most heavily upon the honest middle classes; and for the same reason—that self-assessment is the only way to collect it.

The gentlemen present an impossible system when they propose that the tax shall be collected at source at the highest rate in the graduated scale, and that exemptions and rebates be allowed; refunding all that has been collected to those taxpayers who prove that their incomes are less than $5,000, and refunding a part to those who prove that their incomes are above $5,000 but less than $15,000. They say that this is the English system, but the Select Committee of the House of Commons in 1906 reported that exemptions and abatements could apply only to small incomes, incomes between $800 and $3,500. They reported that these small abatements were a comparatively simple matter. The report shows the abatements and refunds are only a minor element of the English income tax; that only £1,600,000 is thus refunded out of a total of some £40,000,000 annually collected. To raise the exemption and allow abatements on larger incomes means increased complexity of the system; because it applies to more people, and each claim becomes more complex as the amount involved increases. The preparation and verification of this vast hoard of claims, awaiting the law's delay, the committee say, "would arouse a feeling of resentment against the tax, which it is very desirable to avoid." They further point out that any material extension of the system would lock up millions of dollars annually pending the settlement of abatement claims. This would mean serious injury to business and to commerce. And the Select Committee considering these factors refused to recommend that abatements be applied to incomes in excess of £1,000—$5,000. The gentlemen of the affirmative would make an exemption of $5,000, and allow abatements up to $15,000; and they call this the English system.

Raising the exemption does not help matters. The tax will be collected from you and from me, and from every other man, woman and child in the United States. The exemption simply means that any man, who can prove to the Federal Government that his total annual income does not exceed $5,000, will be paid back all that has been collected from him. Taking $5,000 as a starter for exemptions and graduating by abatements up to $15,000, the gentlemen multiply by three the limit beyond which the Select Committee of the House of Commons say the system would become unwise, unjust and impracticable; and yet they call that the English system.

Now, because collection at the source has worked in England is no sure proof that it would work in the United States. England is a small country, her population is congested, and the greater part of the business of the country is conducted through one bank, the Bank of England, making it possible

to get at many incomes at source which could never be ascertained in the United States. With our population scattered over millions of square miles, not only are there more incomes in the United States, but they arise from more and more diversified sources, widely different in kind as well as in locality. And yet it has taken England, with her far less difficult task, some sixty years to perfect to its present efficiency the system of collection at the source. Shall the United States Government, for no good cause shown, undertake an impossible task?

The affirmative seem to be especially anxious that the rich man should be taxed more than he is taxed at the present time. Now, we are not defending the rich, but taxation is not an end in itself. It is but a means to an end. They have pointed out that the primary end of taxation is to support the taxing body. Now, if the tariff and the other present Federal taxes raise enough to support the taxing body, why shall additional taxes be imposed upon any one? Taxing somebody else does not relieve you, nor the American people generally of any of the burdens which they now bear. And we have shown that Federal revenues are sufficient and will remain sufficient for Federal needs.

Not only we do not need a graduated Federal income tax, but such a measure is not practicable, and it cannot be justly worked.

To quote Prof. Seligman, again:

> "We are thus reduced to the dilemma: A progressive income tax corresponds to the demands of ideal justice; but a lump sum income tax, at least in Anglo-Saxon countries, is in practice more or less of a failure; and a schedule income tax is not susceptible of graduation. The desirable, therefore, is not practicable; that is, it is practically undesirable. In other words, a really successful progressive income tax is an infeasibility."

Mr. O'Dea, Second Affirmative.

The gentlemen from Northwestern maintain that the system of abatement and refunding will be filled with hopeless complexities; that the taxpayer will be deprived of the use of a portion of his income; that its recovery will place him at the mercy of the taxing officials.

The gentlemen seem to forget how the plan works. The taxpayer hands in a statement of income—his dividend warrant if a stockholder, his tenant's receipt if a landowner—and receives his refund. How can it be urged that this places the taxpayer at the mercy of officials? If a taxpayer is doubted, the burden of proof is on the government to disprove the tax-

payer's claim. It follows, therefore, that the taxpayer in most instances will receive his refund at once.

We do not maintain that our system is free from objections. But let us bear in mind that the best system of taxation is not the one which is without inequalities, but the one which has the least inequalities. Taxation is a necessary evil. Now the gentlemen from Northwestern have examined the abatement system. It is no forensic device. It was not created for the exigencies of this discussion. Wherever the income tax is discussed, the abatement system with taxation at source is pronounced the most satisfactory method of operating it. It is reasonable to suppose that the gentlemen would produce the most serious objection known. And what is this objection? "The taxpayer will be deprived of the use of a portion of his income till the refund is obtained."

Now, do not forget that taxing systems are judged on the basis of their relative inequalities. Consider our present system. Remember that with every dollar of import duties given to the government, more than two dollars go to the trusts from the pockets of the consumer. Remember that the present taxing system compels farmers in Illinois to pay, for machinery manufactured in Chicago, from 15 to 60 per cent more than the same machinery sells for in Canada or Egypt. Remember that every time you pay in Chicago $1.00 for sixteen pounds of trust-made sugar, the London consumer purchases the same amount for 60 cents.

In comparison, let us take the most extreme case presented by the income tax. Let us assume the maximum rate 2 per cent, the minimum 1 per cent. Take a man with an income of $2,500, all derived from stocks. This is taxed at 2 per cent at the source, and the dividend reaches the taxpayer minus $50. The government therefore owes him $25. Let us assume that it is not returned for three months. Therefore, at the prevailing rate of 6 per cent the taxpayer is deprived of the insignificant sum of 37½ cents! Place beside this the tremendous injustices of the tariff. See to what miserable, pitiable lengths our opponents are compelled to go to find error in our system! Such small, insignificant objections, we submit, are the very strongest evidence of the justice of our plan.

And the gentlemen maintain that the tax failed in the United States following the Civil War, and would do so if applied again. The gentlemen have quoted Professor Seligman quite extensively this evening; perhaps they will recall his statement:

> "From our Federal experience with the income tax it is impossible to draw from it adverse conclusions, inasmuch as the defects were not intrinsic but administrative,

> traceable in a large measure to the spoils system of patronage, which controlled the distribution of appointments. The entire system, as the Special Revenue Commission at the close of the war indicated, was vitiated and rendered so inefficient from this cause that had the measure been never so perfect and never so well suited to our conditions it would of necessity have broken down."

The gentlemen, I am sure, are familiar with the experience of the government in the matter of inland revenue taxes at the same period. They know that our inland revenue system was utterly helpless because of inefficient administration. Today, under the civil service our inland revenue system is almost perfect. Is it not reasonable to believe that if the income tax had been retained, it, too, would have been perfected? Is it not reasonable to believe that when the income tax does come, it will be administered with the same efficiency?

Finally, the gentlemen maintain that it will be forever impossible for the Government to detect and prevent the devious methods of bookkeeping employed by great corporations to evade the tax. Gentlemen, are we to refrain from the enactment of a just statute because the criminal rich threaten to violate it? If the criminal classes, either rich or poor, can defeat the enactment of laws by such means, then the condition of our country is indeed deplorable. In the words of Chief Justice White of the United States Supreme Court:

> "The grave consequences which, it is asserted, must arise if the right to lay a progressive income tax be recognized, involves in its ultimate aspect the mere assertion that free and representative government is a failure."

If I were to follow the logic of my argument, I should place here an apostrophe to democracy. I should tell you of all the wonderful achievements of our forefathers in its name, and say that every analogy of history makes democracy, growing and expanding, the goal of human effort. And I should conclude: "Surely our centuries of progress are not to be stopped by the books of corporations!"

Honorable judges, the idea is preposterous. Such argument does not deserve the name of reasoning. It shows only the singular stupidity of capitalists in resisting every attempt to impose on them their proper share of the public burdens. I repeat, such argument is not reasoning: it is a threat, a club, a cudgel held over the heads of the people to compel them to accede to the demands of predatory wealth.

I for one am unwilling to believe that the American people can be whipped into line by an argument so revolting or a threat so atrocious.

Mr. Scott, Third Negative.

The affirmative argument for graduation is contradictory. First, they say that the rate should rise with the size of the income above the limit of subsistence. We agree with them that this is the proper definition of a graduated tax. This is the principle of the Prussian graduated tax. If a tax is to be graduated at all, the only conceivable reason for it would demand that the graduation be continued to bear more and more heavily on the vaster and vaster income. We are not satisfied that such a tax is just even in theory. The liberal exemption proposed covers all necessary expenses. Why, then, on surplus incomes is not a flat rate tax the only just one?

Now note that the Prussian tax, being genuinely graduated, cannot be collected at source. If any such scheme as that proposed by the affirmative would work, it would long since have been tried in Prussia. As we have repeatedly pointed out, a genuinely graduated tax can be collected only by self-assessment. Consequently, as Professor Seligman says:

> "In Prussia the assessment is little better than that of personal property in America."

Realizing, then, that a real graduated tax must be self-assessed, and admitting that it would then be a failure, the affirmative suddenly shift their ground, stop graduation at $15,000, and try to graduate under that level by a complicated plan of collecting on all incomes and rebating on most incomes at a varying rate. It is absurd to think that such a scheme, which does not graduate the really big incomes—the ones, after all, that seem to worry the gentlemen of the affirmative—is a genuine attempt at thorough-going and bona fide graduation. If graduation is a good thing at all, why neglect the really big incomes?

Another point has not been properly explained: If the income tax is levied, what assurance have we that it will not be promptly shifted back again onto the poor and middle classes in the form of slight increases in rent, and slight increases in prices? Hetty Green has most of her money in real estate and mortgages. A clause in her New York mortgages provides that in case the state of New York levies an income tax, these mortgages become due immediately. A tax on these would be promptly passed along to her debtors. And so with other great fortunes which control the machinery of the corporations. Is anyone simple enough to believe that any income taxes paid by the great fortunes will not be promptly shifted?

The regulation of great fortunes may be a legitimate duty of the government; that is not our present question. But if it is undertaken at all, it must be by more direct and effective measures than by passing the hat for an income tax!

We believe, then, that we have shown that there is no need for *any* new Federal tax at all; that the present revenue system is adequate financially, and that it will remain so. We have pointed out that the injustices which are complained of by the people can be remedied by proper tariff revision, and that, too, without loss of revenue.

Further we have shown that, even if some other Federal tax were needed, the proposed tax is highly undesirable, since it has always failed in this country, for reasons which are inherent; and its partial collection would cause injustice and oppression.

Therefore, the Federal Government should not levy a graduated income tax.

Mr. McDonald, Third Affirmative.

The gentleman declared that he has studied the fiscal conditions for 1910 and has failed to find any record of a deficit for that year. I hold in my hand a report of the Secretary of the Treasury issued last month which states that for 1910 the excess of *all* disbursements over *all* receipts was $19,480,000. I submit the report to the gentleman for verification.

We take issue with our worthy opponent in his positive statement that 60 per cent of all income cannot be reached. He gave absolutely no authority for this assertion. We have shown that 90 per cent of all income can be safely reached at source and give as our authority the United States Commissioner of Corporations.

The negative made another futile contention in saying that our plan is not graduated. Let me refer to the system of 1864: Incomes from $600 to $5,000 paid a 5 per cent rate; from $5,000 to $10,000, 7½ per cent; all incomes above $10,000 paid a uniform rate of 10 per cent. The United States Congress called this a graduated Federal income tax.

Once more we are told that tax evasion is fostered by our plan; that this Federal Government cannot collect an income tax without jeopardizing our institutions. Chief Justice White has the answer, when he says: "Such a contention simply means that free democracy is in danger and that our executive is no longer able to control the tendencies of society."

Now, let us take a survey of the argument from both sides to see what has been accomplished. It was the duty of the negative to prove the present system adequate and just, or to point out another reform better adapted

to conditions than the proposed measure. We feel that they have done neither.

Equitable taxation by means of the states was suggested, which we have shown to be absolutely ineffective for three reasons: Transitory nature of personal property, inter-state character of property, and lack of uniformity in administering law. These difficulties point plainly to the success of this tax as a *Federal* measure.

Our attention has been called to the tariff. We are told that reduction of the tariff means increased revenues. Neither the history of the tariff in the United States, nor the experience of Great Britain support this contention. If a reduction of tariff rates is bound to increase revenue, how does it happen that Great Britain, with duties less than half of ours, raises only one-fourth as much revenue with them? The negative argument would mean that Great Britain's revenue should be larger than ours simply because the duties are lower.

We have pointed out that substantial and continued reduction of this tariff is inevitable, which makes it a regressive element in Federal revenue.

The argument for further economy is safely answered in the words of one of our senators when he says, "There can be no material reduction in national expense."

The affirmative's system is charged with inherent inequalities and with unpopularity. We are told that indirect taxation is popular because the consumer pays unconsciously—a most unprincipled defense for any tax! The gentlemen overlook the fact that every tax is inquisitorial to a certain extent; that any tax is unjust in individual cases. These objections are chargeable, not against an income tax but against taxation.

The negative fail to grasp the three points of our debate in their relation to the whole system. They center their attack on the revenue feature and a few minor technicalities in the operation of the plan, which are incidental to the primary issue—just and equitable distribution of the burdens of taxation. This point our worthy opponents have failed to meet.

We have shown that a Federal income tax is commensurate with present and future needs. In substance, it contains all the merits of a comprehensive tax. It is based upon income. It is graduated, not beyond reason but to a point that makes it practicable in operation.

We have pointed out that an income tax, in order to reach surplus wealth should be a Federal tax and the gentlemen have entirely ignored the point. Incomes have become national in character and no longer respect the bounds of any state. This broad inter-state basis of income makes it imperative that an income tax should be a Federal tax.

Honorable Judges, the complexities of our plan will not defeat its practicability. How many people object to the tariff with its twelve hundred

schedules on the ground that the complications of the system will defeat its own operation? We have the mechanism to classify incomes, and to assess incomes at source. With this information in the hands of a responsible civil service the tax can be collected. The Federal executive is applying the principles of our plan at the present time in the corporation tax, to the advantage of every institution.

This reform is not sentimentalism. The tendency all over the world is for graduation in tax-apportionment. And whether we deplore it or not, democracy is going to assert itself and insist that a man shall support government in proportion to his ability to pay.

We have proposed a plan that best measures this ability to pay, a plan adapted to the needs of the Federal Government, and in every way consistent with progressive democracy in America.

The Briefs

AFFIRMATIVE.

A. THE FEDERAL GOVERNMENT NEEDS ANOTHER SOURCE OF INCOME.

Introduction—

1. The income tax is old and well established in foreign nations.
2. It was used in the United States as a Civil War measure.

I. We need an elastic element in our Federal system.

1. Impossible for Congress to keep a balance between receipts and disbursements.
2. No element of Federal taxation that will respond promptly to an emergency.

II. We need greater justice in distribution of burden of taxation.

1. Consumption taxes are inherently unjust, because based on false standard.
2. Burden falls upon poor and middle classes.

III. We need additional revenue.

1. Tariff revision will mean loss of revenue.
2. Expenses of the government constantly increasing.

B. JUSTICE CALLS FOR AN INCOME TAX TO BE GRADUATED; EFFICIENCY REQUIRES IT TO BE LEVIED BY THE FEDERAL AUTHORITY.

I. An income tax should be graduated.

1. Ability to pay increases in a progressive ratio.
2. Graduation facilitates just and equitable distribution of burdens of taxation.

II. An income tax should be a Federal tax.

1. Surplus wealth of the country escapes taxation entirely.
2. States powerless to reach it.
   a. Inter-state character of personalty.
   b. Lack of uniformity in state laws.
   c. Inter-state agreements cannot be obtained.
   d. Some states will offer inducements to wealth because of economic benefits.
3. Federal income tax will reach this surplus wealth.
   a. All wealth must pay taxes at source upon its income.
   b. Scope of Federal authority broad enough to cover inter-state character of incomes.
   c. Superior effectiveness of United States executive.

C. INCOME TAX CAN BE LEVIED AND COLLECTED EFFECTIVELY.

I. Tax can be collected at source on 90 per cent of incomes.

1. Corporations, approximately 50 per cent.
2. Real estate, 32 per cent.
3. Salaries, 8 per cent.
4. Not collectible at source, 10 per cent.
   a. Professional incomes.
   b. Private businesses.

II. Graduation accomplished by abatements and refunds.

1. Success in England.
2. Machinery available for operating in United States.
   a. Corporation tax.
   b. Information from Bureau of Commerce and Labor.
   c. Civil Service.

NEGATIVE.

A. AN INCOME TAX IS UNNECESSARY FINANCIALLY.

I. Present system adequate for immediate needs.

1. Past decade shows net surplus of ordinary receipts over ordinary expenditures ($369,000,000).
2. Last year (1910) gave similar net surplus ($15,000,000).
3. Estimated that present year will show net surplus.
4. Estimated that the next year (1912) will give surplus of $50,000,000 (a surplus of $1,000,000 even including yearly expense of Panama Canal construction, and whole cost of fortification).

II. Present system will continue adequate for the future.

1. For several years expenditures will decrease.
   a. Evidence—
      (1) $2,000,000 less in 1910 than in 1909.
      (2) $28,000,000 less in 1911 than in 1910.
      (3) Estimated at $52,000,000 less in 1912 than in 1911.
   b. Reasons—
      (1) Elimination of postal deficit.
      (2) Abolition of useless places by Secretary of Treasury.
      (3) Saving and increased efficiency at port of New York.
2. When future expenses begin to increase, tariff and internal revenue can be adjusted to meet the needs.
3. Additional tax superfluous, resulting in dangerous surplus.

III. No loss in revenue anticipated from tariff reduction.

1. Nature of future tariff legislation uncertain.

2. Reduction likely to be conservative and gradual.
3. Reasonable reduction would mean increased revenue.
   a. Steel schedule.
   b. Oil schedule.
   c. Wool schedule.
4. Only reduction approximating free trade could reduce revenue materially.

B. A GRADUATED TAX CANNOT BE JUSTLY AND EFFECTIVELY ADMINISTERED.

There are two methods of collecting income taxes:

I. On personal declaration of the taxpayer, or "self-assessment."

II. By collection so far as possible at source.

I. An income tax cannot be collected at the sources of income as a graduated tax: For source-collection regards only the separate sources, and knows nothing of the total incomes on the basis of which the various graduated rates are to be collected.

II. Attempt to collect tax at each source on a graduated scale would mean injustice: For an income made up from many sources would pay a smaller rate than an income of the same size derived from one source.

III. Obviously, therefore, collection at source must be at a uniform rate.
   1. If at minimum rate in graduated scale, graduation can be obtained only by asking each taxpayer how much larger a rate he ought to pay: But this is the self-assessment method.
   2. If at maximum rate, a large amount will be collected to which Government is not entitled. This must be refunded, according to size of income of each taxpayer. But the only way of determining net taxable income, to determine how much of tax must be refunded, is to ask the taxpayer. Again, self-assessment.
      a. Complications would defeat it in practice.
      b. Business injured by withdrawal of money from circulation.

C. AN INCOME TAX HAS BEEN AND MUST BE A FAILURE IN THE UNITED STATES.

I. In the past it has failed.
   1. Sixteen states have tried it without success, and for the most part have abandoned it.
   2. The Civil War Federal tax was a failure.

II. The reasons for the failure are inherent.
   1. The tax arouses bitter opposition because regarded as unjust, unnecessary, and inquisitorial.
   2. It can and will be easily and generally evaded.

III. Positive evils result.
   1. Imperfect administration means practical injustice: For only the ignorant and the honest are fully taxed.
   2. Perjury, fraud, and corruption of officials are encouraged.

3. Contempt felt for ineffectual law breeds contempt for all law.
4. Tax if collected would be shifted.

We conclude therefore:

First—No new Federal tax is needed: to secure revenue, or to secure justice.

Second—Even if some other tax were needed, an income tax—and especially a graduated income tax—is undesirable from every practical standpoint.

The Bibliography

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